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## Argentina

### DAIRY AND PRODUCTS ANNUAL

**2009**

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**Report Highlights:**

Argentine milk production in 2010 is expected to reach 10.3 million tons, the same as the record of 1999. This is a small increase from last year. Producers are expecting better returns and improved weather after a severe drought in 2008-09. Exports are forecast to grow marginally, as domestic consumption remains relatively stable. Dry whole milk is by far Argentina's number one export product, followed by cheese. In March 2009, the government eliminated export taxes and maximum export prices on dairy products.

**Commodities:**

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

**Production:**

Milk output for 2010 is forecast to increase marginally at 10.3 million tons, a similar level to the record of 1999. After a difficult 2009, with low farmgate milk prices, a continued severe drought, and higher production costs, most producers are expecting better returns and normal weather in 2010. The year-and-a-half long drought has disappeared in most areas, as rainfall seems to be normalizing. However, there are still a few areas which continue to be very dry. With the recovery of pastures and the possibility of making good feed reserves, especially corn and sorghum silage, production costs are expected to drop somewhat in 2010. In 2009, due to the drought most dairymen had to buy large volumes of feed in order to keep their business going.

During most of 2009, dairies received lower prices than in 2008 as export prices dropped significantly. Argentina exports roughly 20 percent of its total milk production. Currently, farmers are collecting, on average, about one peso per liter, of which roughly pesos 0.80 is paid by processors and pesos 0.20 by the government as price support for the first 3000 liters produced. Local contacts expect that in 2010 the government help will probably disappear and processors will have to make up for the difference. Continued increases in world prices will be necessary to allow the industry to pay the full price. Large and medium efficient producers should have reasonable returns with a price of 1.0 peso per liter.

As in other parts of the world, small inefficient dairies continue to disappear, while large ones get larger. The number of dairy operations is estimated at about 10,500, with a stable numbers of cows in production. The high cost of land is forcing producers to intensify and improve efficiency.

There has been little investment at farms and processors during 2009. A similar situation is expected for 2010. There are 700 dairy processors in Argentina, of which 15 companies process 60 percent of the total milk output. There is still a good volume of unused industrial capacity, especially in dry milk.

**Consumption:**

Most local dairy companies forecast a relatively stable domestic consumption in 2010. Most of the big companies export 20-40 percent of their production while continuing to place a priority on the local market.

Measured in liters of milk, cheese is the product that is mostly consumed domestically, followed by fresh milk, butter, whole dry milk and yoghurt. Argentine per capita consumption of dairy products is equivalent to roughly 200 liters of

Based on private studies, 30 percent of total dairy products are sold through hyper and large supermarket chains. The balance is sold through small independent supermarkets and close-by grocery stores.

### **Trade:**

Argentine dairy exports for 2010 are expected to grow moderately because of projected larger milk output and a relatively stable domestic consumption. Exporters indicate that any milk surplus will be primarily processed into dry whole milk (DWM) and cheese for export. Most contacts believe that FOB prices will increase during 2010, resulting in better returns for the local industry and farmers. The elimination of export taxes in early 2009 is expected to impact positively on the export business.

Argentine dairy exports through August 2009 were 166,000 tons, with a total value of US\$331 million. Volume wise this is significantly higher than the same period in 2008, but it is considerably lower in value due to the deep drop in world dairy prices in the last part of 2008 and early 2009. Algeria was the number one market measured in dollars, followed closely by Brazil. Venezuela was third and the United States fourth.

Dry whole milk is Argentina's number one dairy export product by far and it is expected to continue to be in 2010. The main markets are Algeria, Brazil, Venezuela, Dominican Republic and Senegal. After prices came down drastically in late 2008 and early 2009, with average lows of US\$2000 per ton, prices began to rise slowly in March. Local exporters are currently closing new contracts for delivery in the last part of the year at prices closer to US\$3000. Most local traders expect prices for 2010 to fluctuate between US\$3000 and US\$3500 per ton.

Cheese is the second most important dairy export product. The United States is forecast to continue to be one of the top markets, buying primarily hard cheese under a cheese tariff-rate quota. Brazil is also an important buyer of hard cheese. Semi-soft cheese (Gouda, Edam) exports will go primarily to Brazil, Chile, Japan, The Russian Federation, and Mexico. Soft cheese, primarily Mozzarella, will be exported principally to South East Asia, Japan, the Russian Federation, Brazil and Chile. After a significant drop, cheese prices began to increase a few months ago, and exporters expect them to continue to go up in 2010, following closely dry milk prices.

Other dairy product which were exported through August 2009 were casein for a total of 5,200 tons (the United States being the main market); whey for a total of 21,900 tons (Brazil and Indonesia as main markets); nonfat dry milk for a total of 8,300 tons (Mexico, Chile and Brazil as main markets); butter for a total of 9,000 tons (to Brazil, Morocco, Algeria and the Russian Federation); 11,800 tons of ultra high temperature (UHT) fluid milk to South Africa and other countries in South East Asia and Africa; and 5,000 tons of yoghurt (to Uruguay and Chile).

Argentina imports small quantities of dairy products. Casein from Denmark and the Netherlands, processed cheese from Brazil, semi-soft and soft cheeses from Uruguay and France, whey from the

Netherlands and the United States, kephir from Brazil, and ice cream from France are the main imported products.

**Policy:**

Post’s contacts report that the government continues to apply many of the programs it created to keep a well-supplied domestic market at reasonable prices (delinked from world prices). They indicate, however, that the market is currently operating under a freer and more flexible environment. Controlled retail prices are maintained for a few products and certain brands, while processors are no longer getting subsidies in compensation for the production of popular products at lower prices.

Export authorizations are approved faster. In March 2009, when world dairy prices dropped to very low levels, the government eliminated the 5 percent export tax and maximum export prices for dairy products, by which the difference between the real sale and the maximum price was retained by the government. At the time, the maximum export price for dry whole milk was US\$3116, significantly higher than prevailing market prices. Despite world dairy prices recovering, traders doubt that the government will re-install the maximum export price scheme. A few contacts speculate that if the domestic market is short of milk because of larger exports, the government might implement quotas.

The main program currently in practice is the one set last August by which the government pays farmers who produce less than 12,000 liters a day, pesos 0.20 per liter (for a maximum of 3,000 liters a day) delivered to the processors as a way to compensate low prices and higher production costs due to the drought. This support scheme will finish in December.

The government continues its policy to maintain a competitive exchange rate. For 2010, most economists expect the devaluation to roughly follow the inflation rate.

The province of Santa Fe, one of the three large dairy producing provinces, is about to pass a decree which will create a registry of dairy producers, set a reference for milk quality, authorize laboratories for analysis, and will create a system by which processors will have to announce the price they will pay producers.

The federal government is also working on a bill to regulate the industry, although this does not appear to have widespread support within the majority of the private sector, industry and producers.

**Production, Supply and Demand Data Statistics:**

Units of Measure: 1,000 Head; 1,000 MT

<div>Fluid</div> <div>Dairy, Milk,</div> <div>Argentina</div>	2008		2009		2010	
	2008		2009		2010	
	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	New Post	USDA Official Data	New Post	USDA Official Data	Jan

			Data		Data		Data
Cows In Milk	2,150	2,150	2,100	2,150	2,100		2,100
Cows Milk Production	10,100	10,000	10,010	10,400	10,100		10,300
Other Milk Production	0	0	0	0	0		0
Total Production	10,100	10,000	10,010	10,400	10,100		10,300
Other Imports	0	0	0	0	0		0
Total Imports	0	0	0	0	0		0
Total Supply	10,100	10,000	10,010	10,400	10,100		10,300
Other Exports	26	12	23	20	20		22
Total Exports	26	12	23	20	20		22
Fluid Use Dom. Consum.	1,950	2,100	1,975	1,970	1,980		2,000
Factory Use Consum.	8,124	7,888	8,012	8,410	8,100		8,278
Feed Use Dom. Consum.	0	0	0	0	0		0
Total Dom. Consumption	10,074	9,988	9,987	10,380	10,080		10,278
Total Distribution	10,100	10,000	10,010	10,400	10,100		10,300

Unit of Measure: 1,000 MT

Cheese Dairy, Argentina		2008		2009		2010	
		2008		2009		2010	
		Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
		USDA Official Data	New Post	USDA Official Data	New Post	USDA Official Data	Jan
			Data		Data		Data
Beginning Stocks	35	24	35	52	39		34
Production	540	515	525	550	534		543
Other Imports	3	2	3	2	3		3
Total Imports	3	2	3	2	3		3
Total Supply	578	541	563	604	576		580
Other Exports	36	55	36	56	42		46
Total Exports	36	55	36	56	42		46
Human Dom. Consumption	490	460	488	500	500		504
Other Use, Losses	0	0	0	0	0		0
Total Dom. Consumption	490	460	488	500	500		504
Total Use	526	515	524	556	542		550
Ending Stocks	52	26	39	48	34		30
Total Distribution	578	541	563	604	576		580

Unit of Measure: 1,000 MT

Dairy, Dry Whole Milk Powder Argentina	2008			2009			2010		
	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Beginning Stocks	32	16	32	60	20				19
Production	217	190	200	225	222				235
Other Imports	1	1	1	1	2				2
Total Imports	1	1	1	1	2				2
Total Supply	250	207	233	286	244				256
Other Exports	123	100	138	150	155				165
Total Exports	123	100	138	150	155				165
Human Dom. Consumption	67	90	75	71	70				70
Other Use, Losses	0	0	0	0	0				0
Total Dom. Consumption	67	90	75	71	70				70
Total Use	190	190	213	221	225				235
Ending Stocks	60	17	20	65	19				21
Total Distribution	250	207	233	286	244				256

Unit of Measure: 1,000 MT

Dairy, Milk, Nonfat Dry Argentina	2008			2009			2010		
	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Beginning Stocks	5	6	5	8	7				7
Production	25	24	25	25	25				26
Other Imports	0	0	0	0	0				0
Total Imports	0	0	0	0	0				0
Total Supply	30	30	30	33	32				33
Other Exports	13	12	14	17	15				17
Total Exports	13	12	14	17	15				17
Human Dom. Consumption	9	12	9	10	10				10
Other Use, Losses	0	0	0	0	0				0
Total Dom. Consumption	9	12	9	10	10				10
Total Use	22	24	23	27	25				27

Ending Stocks	8	6	7	6	7			6
Total Distribution	30	30	30	33	32			33